

The global market entry strategies of banks commerce essay

[Finance](#), [Banks](#)



The PESTLE analysis was enunciated to ascertain the levels of the effects the external environment plays in the global market arena. The global market entry strategy remains an important focal point in global marketing as banks in an effort to enhance growth and survival expand to other foreign markets to remain competitive in a turbulent and ever changing business environment. This research took a cursory look at the various elements that determines the options available to financial institutions especially banks as the mode of entry varies based on different criteria and how such decisions are made, the advantages and disadvantages of joint ventures, strategic alliances and mergers & acquisition were appropriately considered. These elements also includes the focal theories of marketing strategic environment, the eclectic, the business network, the institutionalization and the resource based theories of foreign direct investment, the different market entry choice open for banks was analysed.

The market conditions that influences the decision of banks in selecting markets are analysed (the internal and external conditions), the market entry partner selection criteria was enunciated. Guaranty Trust Bank Plc. has taken a look at the disadvantages of the partnership style and hence opted for the choice of not adopting these styles of market entry as the countries it is participating in had not stringent protectionist regulation, all these countries of Gambia, Ghana, Sierra Leone and Liberia all needed the influx of foreign direct investment from neighbour nations. GTBank however opted for the establishment of subsidiaries in these countries by taking the grow brand straight into the markets of its choice, the branded products were internationalized.

This gives it the leverage to make definite decisions and determine the steps, pace and determine the direction in which it decides to operate. This mode of market entry strategy enhanced GTBank's chances of being innovative and to compete favourably in its continuous drive to attain maximum height in the global business environment it finds itself. This has contributed to the successive growth of the bank in the West African sub-region. Had it opted for the partnership strategy, it would have been restricted from undertaken and exploring the market as much as necessary the partial if not, total control of the principal it so attached itself to. This limits its capabilities and strides to the views and acceptance of the principal partner in the host country and this weakens its innovative drive.

GTBank plc. in an effort to seek expansion has subsidiaries in emerging financial markets of Sierra-Leone, Liberia, Ghana and Gambia with a correspondent outlet in United Kingdom. This has brought in a revolutionary trend in the style and system of conducting banking business in the West African sub-region. It is along this line that this research examines the entries style and strategies employed and other considerations by the bank.

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CHAPTER ONE

2. 0. INTRODUCTION

The global financial meltdown has necessitated the re-strategizing of different financial institutions with Guaranty Trust Bank Plc Nigeria having to change its marketing strategies continuously and seek to internationalize by going into different foreign markets. There are two advantages that necessitated firms involving in global marketing, the idea of sustainable growth and expansion and a tacit route for survival in the ever competitive financial business environment (Buckley and Carson 1996).

Guaranty Trust Bank Plc was incorporated as a limited liability company licensed to provide commercial and other banking services to the Nigerian public in 1990, commenced operations in February 1991 and became publicly quoted company on the Nigerian stock exchange in September 1996, In February 2002, GTBank was granted a universal banking license and later appointed a settlement bank by the Central Bank of Nigeria in 2003. Guaranty Trust Bank undertook its second share offering in 2004 and successfully raised over N11 billion from Nigerian Investors to expand its operations and favourably compete with other global financial institutions.

The Central Bank of Nigeria raised the minimum capital base of banks operating in Nigeria to N25 billion in 2005 as part of the regulating body's efforts to sanitize and strengthen the financial institutions in Nigerian,

GTBank subsequently met this criteria(CBN bulletin, 2006), in post-consolidation, Guaranty Trust Bank Plc made a strategic decision to actively pursue retail banking.

A major rebranding exercise followed in June 2005, and GTBank began an aggressive expansion strategy and taking the product brand to Ghana, Gambia, Liberia, Sierra Leon, and a correspondence outlet in United Kingdom (GTB Home 2011)

What are the Research Questions?

1 What is the foreign market entry strategy that GTBank used in its quest for global expansion and growth?

Did the choices of foreign market entry option work for Guaranty Trust Bank in its quest for global expansion and growth?

Did the Market entry option strategy contribute to Guaranty Trust Bank competitiveness?

Global marketing entry strategies has [BM1] been an underlining factor towards sustainable growth, expansion and survival of all financial institutions in the w[BM2] orld, the rationale behind this research is to ascertain the importance financial institutions like GTBank derive from their global entry strategies[BM3] in the bid for competitiveness in the global financial markets.

The last global financial crisis that led to several multi-global financial institutions like Goldman Sachs and Lehmann Brothers went bust and how a

financial institution like GTbank may use its market entry strategies to effect and continue its quest for sustainable growth and continuous expansion

Sceptics believe the doomsday was just postponed and not averted entirely [BM4] hence there is still a continued global feeling of another more clinical meltdown envisaged in the nearest future. For its continuing sustainability and expansions, GTBank choice of market entry strategy is vital so as to consolidate or plan its exit strategy as well.

Financial institutions are said to be the engine room of all economic activities such as borrowing, investments, consumption spending, net exports, net government spending, and foreign exchange. This research will shed light on how Guaranty Trust Bank Plc stimulated these economic activities in different countries and enhances its growth by its choice of market entry options

The aims and objectives of this Research

The aim of this research is to look into the global market entry strategies, and how invaluable these strategies are to the overall theme of guaranty trust bank market entry strategy as it seek to expand into other territories.

Objectives of this research are;

To review the global market entry strategies.

Examine the actual and potential effects of global market entry strategies on Guaranty Trust Bank.

Examine the extent to which Global market entry strategy improves growth and sustainable expansion of Guaranty Trust Bank

Methodology

This research is based on a case study approach and is largely qualitative and primary data will be used as interviews will be conducted of six person in different departments of GTBank and data from educational Journals, periodical, educational Textbooks, Studies and Reports of institutions, Newsletters, internet sources in addition to erstwhile various related published educational sources will be extensively used.

Organization of this Research

This Research is organized as follows:

Chapter one contains the introduction to the study, which incorporates:

- Aims/objectives of the study
- An outline of the research methodology to be used in satisfying the aims
- Research questions
- A brief outline of the subsequent chapters

Chapter two consists of literature review and theoretical framework

- This chapter Summarise what other studies have done, their methods their results, and case studies

Chapter three contains methodology of Research

- Describing the data, providing descriptive statistics about the data (charts and tables), explain data collection, explain the analysis of the data.

Chapter four is the discussion of findings.

Chapter five contains recommendations and conclusion

CHAPTER TWO[BM5]

INTRODUCTION

Rugman (1996) noted that global market entry strategic decisions are taken by firms due to economic reasons either for the purposes of expansion and sustainable growth or for the purpose of survival in a volatile competitive market environment [BM6]

In the last decade there has been a large significant [BM7] increase in cross-border entries [BM8] by banks, it has been acknowledged that inter in [BM9] recent years has exceeded the combined total of numbers of partnership[BM10] formed in decades (Aimin 2001, et al). [BM11]

The over saturation of financial institutions in Nigeria led to [BM12] several banking groups to attempt expanding in provision of services to neighbouring countries and beyond.

Craig and Douglas., [BM13] (2006[BM14]) argued that market entry strategies are shaped by the dynamic interplay of the driving and restraining forces of globalization, with increasing and rapid technological advancement, the market need of the local economy, the firms seeking leverage, the quality of product introduced and the world economic trend while the

restraining forces are organizational culture, market difference, management myopia, barriers and national control.[BM15]

As banks seek fast growth globally, the choice of market entry strategic mode became an issue, as it is an important decision for banks seeking global participation and competitiveness (Buckley and Carson 1996).

The selection of an appropriate market entry mode in a foreign market may have considerable effect on a firm either it necessitates growth or causes extensive damage to a firm's sustainable growth and survival (Davidson, 1982[BM16] ; Gatignon and Anderson, 1988[BM17] ; Root, 1994; Terpstra and Sarathy, 1994[BM18]). The subsequent selection of an unsuitable entry mode may block opportunities and hinder growth by limiting the array of strategic market entry options available to the firm (Alderson[BM19] , 1957);

This could result in considerable financial losses to the firm, including the firm's exit from the foreign market, an example is the Merrill Lynch failure in Japan in the 1980s, in its attempt to enter the private client services market, the mode of market entry was at variance with the Japanese protectionist foreign firm regulations at that time which was highly restrictive of foreign firms (Hill, 2002).[BM20]

GTB plc. in its quest for global expansion and sustainable growth must undertake an extensive market research analysis to [BM21] study the foreign business environment it intends operating in as Scott[BM22] (1981) observed that" the best way to organize a firm depends on the nature of the environment to which the firm operates. A PESTLE analysis is done to

ascertain the viability and profitability of the intended local market before choosing an appropriate market entry mode based on that.

Kotler (1998) [BM23] defined PESTLE Analysis as a useful strategic tool for understanding market growth or decline, business position and direction for Operations. Williams and Green (1997) suggested that the PESTEL Analysis also allows an Organisation to have a competitive advantage over other firms in the industry and this technique is used to evaluate and identify the Political, Economic, Social, Technological, Legal and Environmental factors in a given economy that would affect the operation of an organization.

Source: Johnson & scholes[BM24] (2008)

The political factor is always necessary to be evaluated, in order to know the favourability of the political climate to market growth and development in a particular country, as the stability of government, its Taxation Policies, and Attitude towards foreign investment is crucial to the survival of the firm. The foreign government's economic framework is accessed to measure the state of the economy by considering the GDP statistical growth, the wage level, the disposable income, Unemployment rate, business cycle and viability of participating in the country. The rate and growth of population is also measured to determine changes in the taste [BM25] and preferences of consumers, changes in the lifestyle of consumers and the level of education of the populace, which would have a great effect on the demand of the products or services provided by GTB plc.

The laws and regulations that exist in the foreign business environment is gauged to ascertain the legislative constraints or changes, such as health and safety legislation, working regulations or restrictions on company mergers and acquisitions, minimum wage cap.

Porter (1996[BM26]) believed environmental laws and regulation help push firms towards innovation that will reduce their cost against the cost of keeping to the regulation. The PESTEL analysis is a very relevant and useful tool in analysing the external business environment as Henry. (2008) posited that it allows the firm full and informed knowledge of the foreign business environment the firm intends entering, and contributes to the proper understanding of the competitive nature of the business environment that may affect the firm. Hiebing[BM27] et al (2011) advanced that, the nature of the competitors in the market, the consumers and government actions contributes in the development of a sustainable competitive advantage over its competitors. From researching the business environment, the firm might be able to see disguised opportunities (Zheng,. 2009)

Other scholars Williams and Green (1997) considers PESTLE analysis as a waste of time since the business environment is unpredictable; such analysis might become needless, as the business environment is considered uncertain. The business environment is uncontrollable hence the probability of situations arising that cannot be controlled[BM28]

FOCAL THEORIES OF MARKET ENTRY STRATEGIES

There have been different debates on the best entry mode option firms should use to enter foreign markets; most of these theories are focused on the manufacturing sectors with a peripheral research done on the services sector (Ekeledo and Sivakumar 1998[BM29]).

A financial institution like GTBank Plc offers products as well as services. There are several theories of foreign direct investment as it relates to the market entry strategies of firms and financial institutions, but for the purpose of this research 3 related theories will be analysed.

The Business Network theory [BM30] as the business environment is crucial for the banks strategic participation, the institutionalization theory [BM31] that focuses on the difference between the institutional laws, culture of the home or host country, the Eclectic theory [BM32] as this looked at the concept of determining factors that categorized a firm as a host or source firm, and the resource based theory that look at resources as the main reason firm enter new foreign markets.

The joint venture market entry mode, the strategic alliance market entry mode and the mergers and acquisition entry mode is also reviewed[BM33] . Carson (1993) opined the conceptualization of the business network theory is primed that the business market environment focuses on specific relationships between suppliers and the consumers as the two actors in business. At the heart of this approach lies the assumption that suppliers and customers are engaged in long-lasting relationships that they consider to be

important for their business as empirical data related to some one thousand business relationships in European markets showed that most firms operate in markets where a limited number of customers account for a considerable proportion of the firms' sales (Hakansson 1982; Turnbull and Valla 1986).

The institutionalization theory deals with the difference between the institutions in the country of origin and in the receiving subsidiary's country by understanding the complex differences between national business systems through gaining an understanding of institutions governing the way product labour and financial markets work and the way institutional sectors relate to one another (Baptista, 2009)

Such cross-national differences place various degrees of constraints on the international dissemination of practices within multinational firms (Fermer et al 2005). It has been proposed that the key variable in this context is institutional distance (Kostova and Zaheer 1999). This comprises the differences in the regulation, normative and cognitive institutions between countries, for example corporate tax policy, people's attitude to gender issues, and knowledge about possible environmental threats.

Dunning (1980) introduced the concept of an eclectic theory of foreign direct investments often referred to as the " OLI paradigm", which refers to the determining conditions for a firm to be a source or a host, these acronyms stands for Ownership advantages which allows a firm to overcome the disadvantages of a foreign location, this can be a product, or a production process to which other firms do not have access, such as patent or

trademark, Location considerations such as input costs, strategic interaction or trade policy which make it more profitable to produce in a country than to export to it and Internalization gains which makes it more profitable for a firm to undertake foreign production itself rather than dealing with a foreign partner more familiar with the local environment (Sodersten, Reed 1994).

Markusen (1995, 1998) reviewed the OLI paradigm by listing major characteristics of firms as, that “ multinational firms are associated with high ratios of research & development relative to sales, employ large number of scientific, technical workers as a percentage of total work-force, tend to have a high value of intangible assets, are associated with new and technically complex products, are negatively associated with plant level scale economies, are associated with product differentiation variables such as advertising to sale ratios, that the size of a firm is minimally unimportant to be considered a multinational and that multinational firms tend to be older more established firms” ([BM34] Marrewijk, 2002).

Itaki (1991) argued that the “ concept of the eclectic theory is however flawed, as a result of the redundancy of the concept of ownership advantage, it is assumed redundant because it originates from the internalization and integration theories and that firms tend to acquire and exploit the ownership advantages and that the ownership advantage includes the cost of its acquisition and that after paying for the contribution of all the factor inputs, the firm makes super-normal profit that remains in the final results simply from the firm’s organizational power in various departments or sub units

and the issue of the inseparability of the ownership advantage from the location advantage is another matter of note”.

The resource-based theory of foreign direct investments views firm-specific resources such as assets & capabilities, as the focal drivers of a firm's international business strategy, scholars such as Barney (1991), Bharadwaj et al, 1993, and Grant (1991) even though affirming the theory as the most effective theory of international business strategy considers the theory as largely conceptual and descriptive.

Root, (1994) urged financial institutions and Banks entering foreign markets to decide on the most suitable entry strategy, the market entry option selection is interpreted to mean an appropriate means for firms to enter foreign markets to participate in international businesses by exploiting their advantages.

Banks also need to arrange ownership, either as a wholly owned subsidiary, in a joint venture, or in strategic alliance. There are several mode of market entry strategy adopted by banks when[BM35] entering a new market as the entry mode choice is not necessarily straightforward.

A bank may pursue different market entry routes in different foreign markets for different banking reasons. There are often constraints to foreign entry in the banking sector which home governments try to regulate in other to protect the home banks, which add to the complexity of choice of market entry strategy.[BM36]

Joint ventures are considered as the best global market entry strategy and the most cost effective means of expanding to foreign business environment (Hunt and Morgan., 1995) It has been suggested that joint ventures occur as a result of the perceived insistence of nation government to encourage international firms for the purposes of foreign direct investments (Buckley and Carson 1996).

Firms ordinarily though form alliances for the singular reasons of value chains and different product offerings. Joint equity are basically the type of joint venture nations governments do encourage because of the gains that can be offered in terms of shared technological advancements to the local firms.

The advantages of joint venture to banks is that it addresses the issue of uncertainty by the combined creation of monitoring mechanism that could align such uncertainties for the partners, to reveal information, share technology, make decisions together and pursue certain goals collectively Vernon (1983).

This assertion was agreed upon by Pfeffer and Salancik(1978) who noted then that " if the problems firms face are competitive and symbiotic, then it can be presumed that joint ventures are undertaken to reduce uncertainties and promote stability in the business environment".

Gringer (1991), Beamish and Danks(1987) noted that globally majority of banks establishes business partnerships when the perceived additional benefits outweighs the expected extra cost after undertaken a cost-benefit

analysis. It was established by Harigan (1988) that firms form partnership for strategic reasons and argued that “ joint ventures can exacerbate competition, stabilize profit level, and precipitate in structural changes in vertical integration, technological scale of economies or industry traits.

Blodgett (1991) noted that joint venture market entry strategic option could be advantageous in form

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